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Building Flexibility: Financing Contingency Conflicts

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**BUILDING IN FLEXIBILITY:
FINANCING CONTINGENCY CONFLICTS**

ABSTRACT

As military forces and Department of Defense (DoD) resources are reduced, the ability of the military services to finance contingency conflicts will become more difficult. This paper reviews the current DoD resource allocation system and existing authorities to determine if there is sufficient financial flexibility for DoD to operate contingency conflicts in a rapidly changing different world environment.

The current DoD resource allocation system produce impediments to executing a smooth contingency operation. The Planning, Programming, and Budgeting System produces broken programs, funding shortages, and unnecessary restrictions. Financial authorities clearly exist which can help a Service manager adapt to a contingency operation. Future contingency operations will be as unpredictable as Desert Shield/Storm and will be more dependent on our friends and allies. Clearly, more flexible procedures are needed.

Building in flexibility for financial managers requires the implementation of the following six recommendations: the establishment of a Contingency Operations Transfer Account; the development of reprogramming procedures exclusively for contingency operations; Congressional language permitting automatic increases to the stated transfer authority; streamlining the authorities outlined by the Food and Forage Act; requiring the budget formulation process to recognize fact of life changes; streamlining the emergency supplemental procedures to allow for quick Congressional approval of appropriations and authorizations for contingency operations.

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BUILDING IN FLEXIBILITY: FINANCING CONTINGENCY CONFLICTS

"We have a requirement for chemical sensing equipment to give early warning to our troops. I need funds fast! Do you have any funds I can use for chemical sensing equipment?"

"My division has been ordered to ship out immediately, but we have no shipping containers. We are preparing to ship out and we have no funds budgeted for containers! Can you find funds to buy these containers?"

"I have been directed to buy aircraft survivability equipment for our helicopter pilots operating in the desert. Do you have any funds for this?"

These are examples of unforeseen military requirements that may surface during contingency operations¹, requirements that were unbudgeted but nevertheless require immediate financing so our troops can remain a capable force.

Currently the U.S. military is in the throes of sweeping changes. The strategy for the 1990's is to reduce the military to a smaller but capable force; in the words of General Colin L. Powell, chairman of the Joint Chiefs of Staff, "I don't care what size we take it down to. Whatever size it goes to has to be good²." A key element to insuring the quality of our forces is maintaining the capability to finance military requirements during conflict operations³.

As military forces and Department of Defense (DoD) resources are reduced, the ability of the military services to finance

contingency conflicts will become more and more difficult. In the future, DoD will require a financial system flexible enough to adapt to a rapidly changing world environment. Funding must be rapidly available to configure, and re-configure, forces to counter ever changing threats. The purpose of this paper will be to review the current DoD resource allocation system and existing authorities to determine if there is sufficient financial flexibility for DoD to operate contingency conflicts in a rapidly changing different world environment.

This paper will review the topics listed below. The goal will be to explain the problems inherent in financing contingency operations, and, hopefully, provide some recommendations to build more flexibility in to our DoD financial systems.

- o Limitations and impediments that the Planning, Programming, Budgeting System (PPBS) brings to financing contingency operations,
- o Existing financial authorities,
- o Lessons learned from Desert Shield/Storm and their implications on the future environment, and
- o Recommended changes in order to build in flexibility.

PPBS LIMITATIONS AND IMPEDIMENTS

PPBS⁴ is a centralized decision making system "responsible for making a systematic analysis of all requirements and incorporating these into a five(six)-year, program oriented defense budget⁵." The PPBS concept is to tie all organizational

activities together. The Army explains the concept well:

"The PPBS ties strategy, program, and budget all together. It helps build a comprehensive plan in which budgets flow from programs, programs from requirements, requirements from missions, and missions from national security objectives."⁶

A national security peacetime objective is to limit military requirements to what we as a nation are willing to afford for our defense⁷. PPBS has met this objective in the past by staying within Administration and Congressional funding targets. The necessity to stay within Administrative and Congressional funding targets imposes limitations on financing emergency operations. In this section I will identify some of the more significant limitations and impediments.

IS UNCERTAINTY NORMAL IN THE PLANNING PROCESS?

The planning phase of PPBS provides the linkage between strategy, operational mission, and requirements. The deliberate planning reflects known mission requirements and is inherently limited in its ability to plan for uncertainty and unpredictable contingencies.

During peacetime military force planners are faced with enormous uncertainty in determining enemy capabilities and intentions. As Mr. Perdue and Mr. McNaught point out, "The uncertainty faced by military planners contains a number of elements not faced by businessmen. For example, all wars contain surprises. Clausewitz labeled the uncertainty "the fog of battle."⁸ Today military planners talk about this as planning

factors. The PPBS planning process develops force requirements from hypothetical war scenarios which are highly unpredictable.

Based on the best available intelligence, U.S. force planners develop hypothetical global or regional threats and military enemy scenarios. Given the various scenarios within a global or regional context, the commander will plan for the worst case scenario after which U.S. force planners must estimate the future theater of operations and requirements to meet the threat: the sea lift and airlift to get to the battle field, the size and types of units, and the equipment and supplies needed.

Future scenarios may produce more uncertainty. Scenarios developed for a global confrontation with the Soviets were easier. We could define our enemy and his equipment. We knew approximately what we were facing. The Soviet threat assessments and requirements became far more predictable because they were allowed to grow over forty years. Future scenarios will not be as predictable as cold war planning; we can't clearly identify the enemy and his forces.

The additional level of uncertainty inherent in planning a future war and the unpredictability of a vaguely defined enemy will place greater pressure on our financial systems during emergency or contingency operations. If our estimates of enemy capability or intentions are wrong, we will need to rapidly finance changes in personnel, supplies, and weapon systems. The planning phase of PPBS can't be changed to compensate for uncertainty but financial flexibility can be added to serve as a

buffer during the execution phase.

DO WE REALLY PROGRAM FOR CONFLICT?

The programming phase of PPBS translates Defense planning guidance into a comprehensive and detailed allocation of forces, manpower, and dollars for a six-year period. The completion of the programming process results in two significant limitations to financing contingency operations. First, we don't program for all of the requirements that commanders say they need, and second, we don't fully fund programs to fight the battle.

The commanders' force and support requirements developed in the planning process are transmitted to the programmer for resources. Inevitably commander requirements are in excess of the program resource targets. The programmer, faced with funding constraints, will make trade-offs in order to fit the resources available. The trade-offs are more commonly referred to as the prioritization process. Prioritization is needed when sufficient funding is unavailable. The process entails ranking the requirements by fiscal year, then drawing a funding line. Those requirements below the line are funded, those above are unfunded and require analyses for potential risk to the national security.

Mr Puritano (ASD Comptroller, 1983-1984) places the blame for not funding commander requirements on the planning cycle which produced higher force levels than the programmer can fund.⁹ The Army refers to this as the transition from an objective force to a program force.¹⁰ The objective force "is

the desired force in terms of force structure, readiness, modernization, and sustainability."¹¹ The objective force provides guidance to the programmer. But since the objective force is developed some what unconstrained, "the program force is neither fully structured, fully modernized, nor fully supported."¹² The Army assesses the program shortfall risks and advises leadership. The Joint Officer's Guide, 1991, describes this as the difference between requirements and capabilities. "Capabilities" means the forces that are currently funded.¹³

A second programming process limitation is the fact that we don't fully fund programs to fight a war or conflict. Fully funding programs entails financing all activities needed to carry out a combat mission. For example, a scenario may assign an Army Division, stationed in Kansas, the mission to reinforce NATO. Other scenarios may also assign this same Division to support other commanders' operational plans. The programming process will resource the Division for its state side support to stay and train in Kansas, but not to fight in Europe or other areas. For instance, the programming process will not resource: air and sea lift required to get the Division to Europe; ground operating tempo required for European fighting; combat medical programs required for the European theater of operations.

The programming process with its major force programs and program element structure offers an excellent tool for the DoD leadership to identify the use of DoD resources, i.e. strategic forces, general purpose forces, and research and development.

However, when conflict or contingency operations occur the programming phase will produce varying funding deficiencies. The funding deficiencies would depend on such things as how radically different the new threat is from the old and whether current assets can be used. These funding deficiencies need to be made up during contingency operations.

I must point out here that I am not suggesting that the programming phase should be changed to fund war fighting scenarios. It is important, however to recognize the impediments caused by the programming process that must be corrected in the execution of contingency operations. The two most significant programming limitations are the under funding of a force required to fight a particular conflict and the lack of full funding in programs necessary to make our forces fully capable.

BUDGETING - WHO IS IN CHARGE?

The budget process means different things to different people, but for the purpose of this section the budget process will cover formulation, presentation and defense to Congress, and Congressional enactment¹⁴. The budget process is the final phase in obtaining defense funds. Limits to financial flexibility produced in the budget process can be grouped into three areas: DoD's reliance on two annual appropriation acts for funds; the mandated Congressional appropriation structure that cuts across major force programs; and, the constraints of Congressional interest.

DoD requires two annual appropriation acts for funds. First the DoD Appropriations Act for military personnel; operations and maintenance; procurement; research, development, test and evaluation (RDTE) appropriations. The second, Military Construction (MILCON) Appropriations Act for military construction and family housing appropriations. The annual debate that ensues over these two appropriations acts produces impediments to smooth program execution.

Since defense funds a majority of its programs in annual increments, most of the outlays are controllable, meaning that they can be increased or decreased yearly without changing laws. By contrast, approximately 25 percent of the annual Federal Government's budget outlays are controllable. Of these 25 percent controllable outlays, 65 percent are in defense appropriations.¹⁵ The controllability of the defense budget leaves it subject to executive and legislative branch manipulations to solve economic or political problems. The impact of this on a financial manager is to put him in a constant cloud of uncertainty, making executing programs more difficult because funding is so uncertain. As Mr. Korb points out in his article on defense budgeting, "If the funds for a particular activity cannot be acquired, planning becomes fruitless and execution impossible."¹⁶

A major function of the budget process within the Pentagon is to translate defense major force programs into Congressional appropriations. Decisions made in the planning and programming

phases of PPBS are related to force and mission programs.

"Congress, on the other hand, does not accept the Major Force Programs as an approved budgeting entity and hold to the historical appropriation structure."¹⁷ Congress doesn't appropriate funds by defense major force program but by Congressional appropriation categories cited above. Below each appropriation are numerous line item and sub-line item levels of details. The problem created by these two different systems is that a defense program sometimes gets broken. For example, a defense program can be resourced to achieve a mission. The program package will contain the manpower, operations, and equipment funds. Congressional committees may approve manpower in one appropriation, operations in an other, and deny equipment. In discussing strengths and weakness of the budget process, Mr. Korb states, " Decisionmakers can aggregate forces, manpower, and cost together in making a budget. But all of the elements in the program are not together when the budget gets to execution."¹⁸ The result is that a financial manager maybe be given an incomplete program to execute.

Budget constraints are also dictated by Congressional interests. Recent trends show Congress has taken a more assertive role in the area of defense programs. Examples of this trend can be seen in the following three acts: In 1974 Congress enacted the Budget and Impoundment Act which created Budget Committees to set Committee ceilings to control budget authority and outlays, and increase the defense analysts staff; The Gramm-

Rudman-Hollings Act of 1985 gave more authority to the budget committees to ensure that ceilings were met by Appropriation Committees and if not, bill payers introduced to fund new programs; The 1986 Goldwater-Nichols Department of Defense Reorganization Act¹⁹ that brought the unified and specified combatant commands into PPBS to improve force planning. The effects of these acts have been to place more controls on and in the hands of Congressional committees and staffs over defense programs. Defense appropriation committees can't simply increase defense programs without providing offsets or bill payers. Congressman and their staffs with special interests in specific procurement contract devote more time defending them against others (Congressional or defense managers) who are trying to use them as bill payers for defense program increases. The result for defense financial managers is that more Congressional discipline and control reduces flexibility during execution because Congress has placed more complicated restrictions on defense programs to ensure their execution as intended.

SUMMARY OF PPBS IMPEDIMENTS.

By the time the defense financial manager receives the enacted appropriations from Congress he is faced with the following impediments that may require changes during execution of contingency operations:

- o The force levels developed in the planning process and enacted in the budget will most likely not be the forces

commanders need in a contingency operation.

- o The requirement trade-offs made in the programming process may surface during contingency operations and force funds to be diverted. The commander will also need to be fully funded to fight. That is, funds will be needed for the air and sea lift, and increased operating requirements.

- o The Congressionally enacted budget may be far short of what is required to fund operations due to the use of defense as a bill payer for domestic programs, have broken programs because of reductions in one appropriation and not the other, and be filled with Congressional program restrictions.

EXISTING FINANCIAL AUTHORITIES

Existing financial authorities are publicized by multiple sources in various media to include the United States Code (USC) and public law, court decisions (case law), Federal regulations, Executive orders, inter-agency agreements, and DoD/Services directives and regulations. During execution the financial authorities provide the Executive branch powers: to adjust to normal fact of life changes in program execution, price, and operating condition; to adjust to unforeseen requirements as a result of contingency operations; and, to mobilize military, civilian, and national resources in time of war or national emergency.

The existing financial authorities discussed in this section will focus on contingency operations leading up to a declaration

of war. It is important to note that most contingency operations don't require emergency authorities for mobilizing the country for war. For example, during the last 2 1/2 years the U.S. has been involved in twelve contingency operations:

Counter Narcotics, Columbia - 1989 to present; EARNEST WILL protect U.S. vessels, Persian Gulf - Nov 1989 to Aug 1990; GRANITE EAGLE Naval show of force, SOF-hostage situation, EL Salvador - Nov to Dec 1989; Coup attempt, USAF fly over, Philippines Dec 1989; JUST CAUSE Army Airborne and Infantry, USAF Airlift, Panama Dec 1989; Coup attempt USAF Airlift, Haiti Mar 1990; SHARP EDGE Non-Combatant Evacuation Order (NEO), Marines, Liberia May 1990 to Jan 1991; Desert Shield/Storm, Persian Gulf Aug 1990 to present; Coup attempt Army Infantry and MPs, Panama Dec 1990; Election Violence-NEO operation, Marines/Helicopters/Tankers, Haiti Dec 1990; U.S helicopter shot down, El Salvador Jan 1991; EASTERN EXIT NEO operation, Somalia.²⁰

In only one case, Desert Shield/Storm, did the executive branch declare a national emergency requiring the use of special financial authority (Feed and Forage Act). In the 1990's DoD will again be faced with undeclared emergencies or contingency operations that require the use of financial flexibility described in this section.

The use of financial authorities take place during the budget execution phase which starts at the time of enactment of

two annual Department of Defense (DoD) appropriations acts and ends when the fiscal year appropriation accounts are closed. As described under the section "Budgeting - Who is in Charge?", DoD requires two appropriations acts for funds. The DoD Appropriations Act for military personnel; operation and maintenance; procurement; and research, development, test and evaluation (RDTE) appropriations, and Military Construction Appropriations Act for military construction and family housing appropriations.

Sources of financial authorities are:

- o intra-appropriation reprogramming actions,
- o inter-appropriations reprogramming actions,
- o supplementals,
- o timing of obligations and/or expenditure, and
- o Feed and Forage Act.

INTRA-APPROPRIATION REPROGRAMMING ACTIONS.

Intra-appropriation reprogramming actions are the use of funds for purposes other than those originally approved by Congress at the time of appropriation. Intra-appropriation reprogramming actions do not cross appropriation acts or appropriations and do not represent additional funds from Congress.

During real situations or unforeseen contingency operation changes, intra-appropriation reprogramming actions are the first line of flexibility that allows appropriation managers to redirect funds. Intra-appropriation reprogramming procedures are

not written in law, but represent a policy agreed between DoD and Congressional Committees. The procedures are renegotiated from time to time. Special arrangements can also be renegotiated during times of national emergency.

Intra-appropriation reprogramming actions may contain many restrictions. For instance, they not allowed when they either reverse prior Congressional action on a program or address programs not approved by Congress. For example, any budget line item or program activity that was specifically denied by Congress will not be allowed funding through an intra-appropriation reprogramming action. In addition, Congress, through the use of report language, may place restrictions on intra-appropriation reprogramming actions. For example, In the 1991 Joint Appropriation Conference report, the conferees restricted DoD from stockpiling Nitro Guanidine. The funds approved by Congress were to clean up production facilities, but not to be used to produce Nitro Guanidine. Before entering into a reprogramming action all Congressional limitations should be identified.

In general a DoD Service departments may be faced with five types of reprogramming actions.²¹ They are: Prior approval; Notification; Internal reclassification or transfer; Below-threshold; and Letter notification. All five types can be found in intra-appropriation reprogramming actions.

- o Prior approval intra-appropriation reprogramming actions require approval from Congressional Committees. They are intra-appropriation reprogramming actions requiring an increase to

procurement quantities, or adjustments to a special interest items identified by Congress. Congressional special interest items are those programs, budget line items, or activities that Congress wants to monitor very closely. For example, The Joint Appropriations Conferees provided the Army \$3.5 million for HIV-AIDs research. The Conferees placed language in their report that HIV-AIDs research was a special interest item and required notification if the Army was going to make any changes.²²

- o Notification intra-appropriation reprogramming actions require approval of Congressional committees. They involve the movement of funds within an appropriation above a certain dollar thresholds or that would initiate a new procurement line item or RDTE program element with significant follow on costs. Dollar thresholds are different for each appropriation - - military personnel, and operation and maintenance, \$10 million or more in a budget activity; procurement, \$10 million or more in a line items; RDTE, \$4 million or more in any program element.

- o Internal intra-appropriation reprogramming actions involve a reclassification or realignment of funds within an appropriation but between line items or program elements. Internal reprogramming actions normally stay within the original intent of Congress when passing the appropriation. Internal reprogramming actions are approved within DoD.

- o Below-threshold intra-appropriation reprogramming actions are dollar changes within an appropriation that don't exceed agreed dollar thresholds identified for notification

reprogramming. Below-threshold allows Service departments to transfer dollars into or out of line items, but the transfers may not exceed the ceiling and floor dollar levels specified by the Congressional Committees for that appropriation. Below-threshold actions don't need Congressional or DoD approval. Below-threshold reprogrammings are truly the only real financial flexibility a Service department has to transfer funds quickly.

- o A Letter of Notification reflects changes made by DoD that would result in new programs with costs of less than \$2 million or insignificant follow-on costs of less than \$10 million in 3 years. In other words, less than required to submit a full notification reprogramming. New start modification programs not originally approved by Congress require letter notification. Letter notifications also include any terminations or Congressional committee interest items that the Congress would, as a consideration, want to be notified about.

INTER-APPROPRIATION REPROGRAMMING ACTIONS.

Different from intra-appropriation reprogramming actions, inter-appropriation reprogramming actions allows the shifting of funds from one appropriation to another. As with intra, inter-appropriation reprogramming actions do not represent additional funds from Congress. All inter-appropriation reprogramming actions transferring funds from one appropriation to another require transfer authority and Congressional approval.

To process an inter-appropriation reprogramming action you

must have transfer authority. Transfer authority is approved by Congress upon enactment of the appropriations act and allows DoD to transfer budget authority from one appropriation to another.²³ In 1991 the transfer Authority for DoD may not exceed \$1.5 Billion.²⁴ Congress, in providing the provision to transfer funds, recognizes the need for financial flexibility during execution, but limits the departments to a ceiling figure. However, Congress remains in control of these transfers through the watchful eyes of their committee staffs. As Mr. White, Mr. Hendrix, and Mr. Quetsch point out "Transfer Authority represents not so much the relinquishing of Congressional control to agency judgement as the delegation of authority to Congressional Committees."²⁵

Of the general five types of reprogramming actions, two apply to inter-appropriation reprogramming. They are Prior Approval and Internal Transfer. Both Prior Approval and Internal Reclassification require the use of transfer authority and Congressional Committees approvals. Congressional approval will be in the form of enacted public law, report language or letter approval from Congressional Committees (Appropriations and Authorization).

- o Prior Approval inter-reprogramming actions are transfers to be merged with other existing line items and to be available for the same purpose, and the same time period, as the appropriation or fund to which transferred. The transfers must be based on unforeseen military requirements and should not be

made to over-turn funding decisions previously made by Congress.

- o Internal Transfer inter-reprogramming actions are authorized in public law. For example, the establishment of a Foreign Currency Fluctuation Account by Congress allows for the transfer of funds from Defense Appropriations due to fluctuations of currency exchange rates. The public law authorizes DoD to make these Internal Transfers based on unforeseen requirements. Congressional Committees must be notified promptly of these transfers after the actions have been taken.

SUPPLEMENTALS.

Unlike reprogramming actions, supplemental appropriations provide additional funds beyond the original appropriation amounts.²⁶ Supplementals can include revised funding estimates of previously approved appropriations or new programs required for unforeseen military events. New programs are normally included in supplementals because they are too urgent to wait until the regular next fiscal year appropriation requests are submitted to Congress.

Supplementals used to be submitted annually, but recently they have lost their appeal. During the Vietnam War President Johnson used supplementals to obtain additional funds to finance changes in requirements. In the 1970's supplementals were used to finance significant changes in inflation and help finance military and civilian pay raises. Inflation was hard to predict in the late 1970's. The years of hyper-inflation would rob

departments of investment account purchasing power, thereby reducing programs. Supplementals helped the department adjust for the loss of purchasing power caused by inflation.

More recently, supplementals have fallen out of favor with both the Administration and Congress. The reason lies in the growing outlay deficit. To better control outlays Congress and the Administration put more discipline into the budget process. Supplementals were identified as budget breakers. Congress and the Administration would agree to Federal Budget levels, and enact appropriations based on those levels, only to see supplementals break the controls. Once Defense got its supplemental to the Congressional floors other members would attach non-defense related programs to the bill. The Senate, during the Gramm-Rudman-Hollings debates went as far as passing a rule that required 60 votes of approval before a supplemental could be considered.

TIMING OF OBLIGATIONS OR EXPENDITURES.

The timing of obligations and expenditures (outlays) are done by DoD and the Office of Management and Budget (OMB) through the apportionment process. Apportionment is the federal government's administrative control of Congressionally appropriated funds or fund account. Apportionment controls obligations through the distribution of monthly or quarterly targets or amounts available for obligation. The apportionment limits the obligation an agency may incur. In this way the Administration can insure that

funds will be available at year end or restrict the use of funds that may be need for other requirements, i.e. sequestration or rescission.

It is important to note here that obligations can be controlled, but outlays can only be forecast in the short run. The apportionment system directly controls obligations and only indirectly controls expenditures or outlays. Limiting obligations will decrease outlays sometime in the future.

During a contingency situation, especially at the beginning of the year, waiving apportionment targets can provide flexibility. Waiving apportionment targets allows an agency to obligate 12 months of services in 6 months. For example, if an agency has \$20 billion to finance annual operations, the apportionment process would normally limit the agency to obligating \$5 billion a quarter. Through the \$5 billion limit the administration is assured that funds will be available for fourth quarter obligations. If the agency is hit in the first quarter with a unforeseen situation requiring an additional \$10 billion higher level of operations, the agency can ask for a waiver of apportionment targets, thereby shifting some of the remaining \$15 billion target into the first quarter.

Although the agency shifted fourth quarter target to finance the contingency operating, it is still faced with finding funds for the remainder of the year. If the agency cannot find unused funds internally, Congress will have to provide additional funds for the agency to stay solvent. Congress can pass supplemental

appropriations to reimburse the agency for the additional \$10 billion in obligations. Apportionment can provide financing flexibility to a agency, but the agency must judge whether the contingency situation can be justified to Congress.

FEED AND FORAGE OF 1861.

The 41 USC section 11, Feed and Forage Act, authorizes the field commander to provide needed items to U.S. troops in time of emergencies. Feed and forage authority is limited to food, transportation, and specific medical items for the troops. DoD has also restricted the authority to invoke the Feed and Forage Act to the Secretary of Defense. The Feed and Forage Act does not increase funds a Service department gets. The obligations incurred for using the Act will require budget authority funds. Funds will either come from internal excess or canceled programs, or have to be funded by new budget authority enacted by Congress.

In the past the Feed and Forage Act has been used for more than military emergencies. During Congressional battles over budgets, the administration has threatened to use the Act to finance periods when DoD was without appropriations. Due to the centralization of authority to use the Act, Services or commanders in the field are unable to use the flexibility in time of real contingency operations. For the Act to be effective DoD would have to modify its application of the Act to allow for Service Secretaries or field commanders to invoke the Act. The Act clearly provides a way to incur obligations in time of

emergency, but funds are still required to cover the expenses before the fiscal year is out.

EXISTING FINANCIAL AUTHORITIES - TIMING IS EVERYTHING.

Financial authorities clearly exist which can help a DoD manager adapt to a contingency operation. However, the value of any specific authority to a financial manager is significantly influenced by the factors of time. Quicker evolving contingency operations require funds quickly, while slower moving events can allow more time for approvals. Each of the existing authorities described above takes a different amount of time, time that a crisis manager may not have.

To use authority that requires Congress or Congressional Committee approval will take the most time. Intra and inter-appropriation reprogramming actions requiring Congressional Committees approval may take as long as 6 to 9 months. During this period both the source of funds (bill payer) and the application of funds are frozen. Supplemental appropriations authority can't be initiated by Service Department managers. Supplementals require a consensus between the DoD and the Administration, and Congress approval before funds become available. Supplemental approvals may take as much as 6 to 9 months.

Financial authorities requiring approval within DoD or Service Departments are the only recourse a financial manager has to obtain quick access to funds. Below-threshold authority,

although a source of funds within an appropriation, does provide managers the quickest source of funds. This authority usually extends down to the program manager. Coupled with a waiver of apportionment, below-threshold reprogramming can sustain an organization through a contingency operation for 3 to 6 months while the agency waits for additional supplemental funds to cover fourth quarter shortfalls. A fourth quarter contingency operation would not have this kind of flexibility.

LESSONS LEARNED FROM DESERT SHIELD/STORM AND IMPLICATIONS ON THE FUTURE ENVIRONMENT

The Desert Shield/Storm operations provided financial lessons that must be considered before other contingencies arise. Incremental costs for the operation were approximately \$60 billion, of which \$54 billion came in pledges from allies. The pledged contributions and supplemental funds (Fiscal Years 1990 and 1991) approved by Congress all came after the fact. DoD was being reimbursed for costs it already expended. In the beginning the financial managers were required to fund activities without any assurances that reimbursement would come; a situation that is typical in contingency operations. The managers struggled to meet financial demands within existing authorities. The purpose of this section is to review selected examples of financial situations that surfaced during the operations and how financial managers dealt with the problems.

The financial manager of the Army's operations and maintenance account was faced with significant incremental costs

when the President announced his decision on 4 August 1990 to defend Saudi Arabia and on 8 November 1990 to increase deployments for an offensive capability. To finance the unforeseen and unbudgeted costs, the financial manager²⁷ had to make several significant assumptions. First, Congress would approve future reprogramming action(s) and/or supplementals to support the operations; and second, that the Army would obtain authorities to stretch all known rules for incurring obligations. These assumptions allowed managers to move funds from program element (PE) to PE, thereby violating reprogramming rules; to eliminate apportionment targets to move funds forward by short funding 3rd and 4th quarter requirements; and, to request Feed and Forage relief. Once managers had funds to finance Desert Shield/Storm operations, they then processed estimates for additional funds, supplementals, and reprogramming actions to realign funds. This experience shows that the existing authorities provide the manager with short term capability to finance conflict. But to use the authorities the manager is faced with a moral dilemma -- risk violating rules in the near term based on the assumption that Congressional and U.S. public support will legitimize the military operation, hence his financial conduct, downstream.

The Patriot missile was a pivotal weapon in keeping U.S. public and coalition support. But at the beginning of the Iraq invasion the Patriot wasn't capable of defending against missile attack. A major effort was required to modernizes the Patriot to

defend against Iraq missile attack and to surge production. The changes to Patriot were unbudgeted and the contractor wanted funding assurances before beginning work. This may look like the contractor is unpatriotic, but in August 1990 no one was sure that the U.S. would fight. The Army developed a prior approval reprogramming to move \$100 million to the Patriot modification budget line. The Army could not wait 6 to 9 months for approval. In discussions between the Army, DoD, and Congressional Committees modified procedures were initiated which allowed the reprogramming to be approved by phone call with formal action to follow after the fact. Clearly, this example show that contingency procedures for reprogramming actions need to be developed and formalized so that during an emergency actions can flow smoothly.

A significant threat facing the theater commander in Saudi Arabia was the potential of an Iraq chemical attack. The U.S. has no chemical detection vehicle in inventory or production that could meet the Iraq threat. Germany was producing a vehicle which could do the job with minor modification. Since no funds were programmed or budgeted the department was faced with getting both funding and new start authority. Both would require Congressional approval. The Army approached DoD with options to create a new budget line, then notify Congress or to modify reprogram procedure to obtain verbal approval over the phone. DoD in an effort to hold down costs and use support from our allies wanted to ask the German government to donate the vehicles

to the U.S. Defense officials from both countries met and exchanged agreements. The U.S. could have the vehicles but, if damaged or lost, the U.S. would have to reimburse Germany. The dependence on another government for military equipment delays the financial process and produces agreements with hidden obligations that commit the U.S. to liabilities not covered in enacted appropriations.

My last example is based on the need for intra theater distribution of material. The theater commander needed to move his heavy equipment (tanks) from Saudi ports to the Kuwait border quickly. The Services were short of Heavy Equipment Transport (HET) vehicles to do the job (1,400 HET requirement, only 500 on hand). A survey produced five countries with HET vehicles that could carry at least 70 tons, but no one country had sufficient quantities to cover the requirement. A financial package had to be developed to satisfy all the national demands. The five countries involved were: U.S. commercial market, Poland, Germany, Italy, and Czechoslovakia. Each had different demands, i.e., Czechoslovakia contractors would only sell HET, Poland contractors would lease, and Germany would loan the vehicles with contractor maintenance support. This variation required different contracts and appropriations (procurement and operations), all with different rules. In addition, none of the requirements were programmed or budgeted. Clearly there were no financial procedures in place to smoothly satisfy the commanders' needs. Each case had to be handled differently with some being

funded internally and others requiring committee approval.

Future contingency operations will be as unpredictable as Desert Shield/Storm and will be more dependent on our friends and allies. As pointed out in a study done by the Center for Strategic & International Studies,²⁸ future uncertain contingencies will place dependence in a new light. The need for revising financial procedures to adjust to rapidly changing situations will also alter our relationships with friends and allies.

RECOMMENDATIONS

Building in flexibility for financial managers must be guided by a set of clear objectives. Based on the discussions in the sections on PPBS, existing authorities, and lessons learned from Desert Shield/Storm, I developed and followed three objectives when recommending any policy or procedural changes. First, the financial manager will need the ability to access funds quickly to provide for incremental costs caused by contingency operations. Second, the options available to the financial manager must be structured so that the risk of wrong doing is eliminated. Finally, financial authorities need to be delegated down to the lowest levels.

To achieve these objectives I offer the following six recommendations:

- o DoD and Congress will need to establish a Contingency Operations Transfer Account. The transfer account can be modeled

after the Foreign Currency Fluctuation, Defense Account, which allows for the funding of unforeseen fluctuations. The Contingency Operations Transfer Account should contain the following features: an appropriation value or working capital fund; the authority to move excess funds from expiring or closing account balances into the fund thereby building up the fund balance; the authority to reprogram excess funds into the account; and the authority to draw on the account based upon the President's declaration of a contingency operation emergency, similar to the authority granted in the Federal Emergency Management Act. The Contingency Operations Transfer Account will reduce the uncertainty in planning, provide immediate access to funds for operations, track incremental costs, and cut down on "wires and mirrors" reprogramming actions.

- o DoD and Congress should establish contingency operations reprogramming procedures. The procedures should address the immediate use of higher dollar levels for below threshold reprogramming, the authority to start new programs where the commander has deemed it mission essential, and the authority for Service Departments to initiate reprogramming actions with follow on notification to Congressional Committees. A more flexible reprogramming process will allow for more decentralization of authority down to the program and field managers who need to react quickly.

- o Congress needs to provide the language within the annual appropriations acts that will allow for automatic increases to

the stated transfer authority in case of a contingency operation. The allowance should be stated as a percent. The wording would read something like, "DoD is authorized to increase the transfer authority of \$1.5 billion by 10 percent if the President declares a contingency operation". The ability to increase transfer authority will provide DoD flexibility in cases where the contingency is late in the year and transfer authority has been used up or where contingency requirements are skewed to one or more appropriations.

- o DoD should streamline the authorities outlined by the Food and Forage Act. The Food and Forage Act was originally written to provide the field commander the ability to get provisions for his troops when he is cut off from U.S. support. Since the time of its enactment DoD has centralized the authority and has used it for non-emergency situations. DoD should return the authority to the field commander and pursue other authorities more appropriate to satisfying non-emergency needs.

- o The DoD budget formulation process should develop a program decision (PBD) addressing commander's fact of life changes for every annual budget. Although the unified and specified commanders have been brought into the Planning and Programming phases of PPBS, they have not been fully assimilated into the Budget formulation process. A PBD which address the fact of life changes since the program was developed will cut down on disconnects between old out-dated scenarios and new regional developments that have impacted the commanders

decisions. The PBD could be written by the DOD Comptroller but reviewed by OJCS.

- o Congress should streamline the emergency supplemental procedures to allow for quick Congressional approval of appropriations and authorizations for contingency operations. Congress should allow for the initiation of a supplemental based on the President's contingency operation decision. The supplemental should be defense only and not contain the right for riders.

ENDNOTES

1. National Defense University, The Joint Staff Officer's Guide 1991, Chapter 7. The term used in this paper contingency conflict or contingency operations refer to a crisis action procedures or time-sensitive planning as explained in chapter 7, "Crisis Action Planning".
2. Barton Gellman, "Strategy for '90s: Reduce Size and Preserve Strength", The Washington Post (December 9, 1991), p. A10.
3. National Defense University, The Joint Staff Officer's Guide 1991, p. 7-2, 700 a (2). "An adequate and feasible military response in a crisis demands procedures keyed to the time available,".
4. U.S. Department of Defense, Implementation of the Planning, Programming, and Budgeting System (PPBS), DoD Instruction 7045.7, May 1984.
5. Alain C. Enthoven and K. Wayne Smith, "New Concepts and Tools to Shape the Defense Program", National Security Management Course, Defense Requirements and Resource Allocation, National Defense University, (August 1989), p. 4. The Defense program years have been changed from five to six.
6. U.S Army War College, Army Command and Management: Theory and Practice 1991-1992, p. 14-12. The Army adds an "E" to PPBS because they emphasize execution.
7. U.S. Department of Defense, DOD Directive 7045.14. "The ultimate objective of PPBS shall be to provide the operational commanders-in-chief the best possible mix of forces, equipment, and support attainable within fiscal constraints."
8. Charles Perdue and William McNaught, "Determining the Size of the Defense Sector: How Much Is Really Enough?", National Security Management Course, Defense Requirements and Allocation, National Defense University, (August 1989), P. 108-109.
9. Vincent Puritano, "PPBS at the Beginning of the Reagan Administration," National Security Management Course, Defense Requirements and Resource Allocation, National Defense University, (August 1989), P. 49.
10. U.S Army War College, Army Command and Management: Theory and Practice, 1991-1992, p 10-11 and 12.
11. Ibid., p. 10-11.

12. Ibid., p. 10-12.
13. National Defense University, The Joint Staff Officer's Guide 1991, p. 6-3.
14. U.S. Department of Defense, Office of the Comptroller of the Department of Defense, Budget Guidance Manual, DoD 7110-1-M, May 1990.
15. The Budget of the United States Government, Fiscal Year 1977, p. 34.
16. Lawrence J. Korb, "The Budget Process in the Department of Defense, 1947-1977", National Security Management Course, Defense Requirements and Resource Allocation, National Defense University, (August 1989), p. 21.
17. Eston T. White, Val E Hendrix, and John R. Quetsch, "The Role of Budgeting in PPBS", National Security Management Course, Defense Requirements and Resource Allocation, National Defense University, (August 1989), P. 91-92.
18. Korb, p. 39.
19. Congress, Goldwater-Nichols Department of Defense Reorganization Act of 1986, Title I and II.
20. Commander Fritchman, interview held during meeting at the Pentagon, J-5 OJCS, Washington D.C., 22 January 1992. Commander Fritchman developed this list.
21. U.S. Department of Defense, Budget Guidance Manual, Part IV, Section 3.
22. FY 1991 Joint Appropriations Conference Report, 102-328, P. 133. Conferees provided \$3.5 million for HIV-AIDS research. Base for Reprogramming report (DD 1414) shall show this project as special interest item a decrease to which requires prior Congressional approval.
23. U.S Department of Defense, Budget Guidance Manual Part IV, Section 4.
24. Department of Defense Appropriation Act 1992, Public Law 102-172, 27 November 1991, Section 8006, Transfer Authority not to exceed \$1.5 Billion.
25. Eston T. White, Val E. Hendrix, and John R. Quetsch, "The Role of Budgeting in PPBS", National Security Management Course, Defense Requirements and Resource Allocation, National Defense University, (August 1989), p. 102.

26. U.S Department of Defense, Budget Guidance Manual Part II, Section 1, Chapter 214.

27. Colonel Berg, interview over the phone, TRADOC, Budget Officer, Fort Lee, Virginia, 23 January 1992. Colonel Berg was the Army's HQDA Chief Budget Officer during Desert Shield/Storm.

28. James Blackwell, Michael J. Mazarr, and Don M. Snider, "The Gulf War", Interim Report of the CSIS Study Group on Lessons Learned from the Gulf War, The Center for Strategic & International Studies, Washington, D.C.